

Message Text

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ACTION EUR-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-03 FRB-01

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TO SECSTATE WASHDC 8829

INFO USEC BRUSSELS 976

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

USOECN PARIS 1515

AMEMBASSY STOCKHOLM

UNCLAS SECTION 1 OF 2 OSLO 4590

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SUBJ: THE NORWEGIAN BUDGET PROPOSAL FOR 1975

SUMMARY - THE NORWEGIAN BUDGET PROPOSAL FOR 1975 OF OCTOBER 7 REPRESENTS A CHANGE IN THE TREND FOR GOVERNMENT FINANCING IN NORWAY BECAUSE SUBSTANTIAL INCOME TAX REDUCTIONS WILL RESULT IN THE GOVERNMENT TAKING A REDUCED SHARE OF GNP. THIS DEVELOPMENT APPEARS TO SUPPORT A GOVERNMENT CONTENTION THAT THE 1975 BUDGET WILL BE LESS EXPANSIONARY THAN THE FISCAL BUDGET FOR THE CURRENT YEAR. THE BUDGET SEES THE ECONOMY EXPANDING 6.2 PERCENT IN REAL TERMS AND INFLATION RISING ABOUT 11 PERCENT IN 1975. TOTAL BUDGETED REVENUES AND EXPENDITURES ARE DOLS 6.3 BILLION AND DOLS 7.6 BILLION, WHICH REPRESENT INCREASES OF 14.3 PERCENT AND 22.2 PERCENT, RESPECTIVELY OVER 1974. INCOME TAX REDUCTIONS WILL REDUCE GOVERNMENT REVENUE BY DOLS 400 MILLION IN 1975. DEFENSE SPENDING PROPOSALS CALL FOR A DISSAPPOINTING 1 PERCENT INCREASE IN REAL SPENDING IN 1975 AND FOR A YEARLY AVERAGE OF 1.2 PERCENT BETWEEN 1975-78.

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FOREIGN AID WILL BE INCREASED BY ALMOST 43 PERCENT TO A LEVEL

REPRESENTING 0.8 PERCENT OF THE GROSS NATIONAL PRODUCT. FORSEEN IS A CONTINUATION OF THE TIGHT LABOR MARKET, A 17 PERCENT GROWTH IN WAGES, AND A 4 PERCENT INCREASE TO DOLS 1.3 BILLION IN THE BALANCE OF PAYMENTS DEFICIT, REPRESENTING A FURTHER DRAWING AGAINST FUTURE OIL REVENUE. NO NEW WELFARE PROGRAMS ARE INCLUDED AND EXISTING SOCIAL SECURITY PAYMENTS WILL RISE ONLY 2 1/2 PERCENT IN REAL TERMS. END SUMMARY.

1. MINISTER OF FINANCE, MR. PER KLEPPE, PRESENTED THE 1975 FISCAL BUDGET (FISCAL AND CALENDAR YEARS ARE THE SAME) TO THE STORTING (PARLIAMENT) ON OCTOBER 7. THE 1975 BUDGET REPRESENTS A NEW TREND IN A GOVERNMENT FINANCING IN NORWAY IN THAT SUBSTANTIAL INCOME TAX REDUCTIONS WILL RESULT IN THE GOVERNMENT'S TAKING A LOWER SHARE OF GNP. MR. KLEPPE STRESSES THE FACT THAT REDUCED TAX REVENUES WOULD MEAN LOWER RATES OF GROWTH IN GOVERNMENT EXPENDITURES.

2. THE BUDGET IS BASED ON A PROJECTION OF CONTINUED STRONG ECONOMIC GROWTH COUPLED WITH A SLIGHTLY HIGHER INFLATIONARY RATE. REAL ECONOMIC GROWTH -- SHIPPING AND PETROLEUM ACTIVITIES INCLUDED -- IS PROJECTED TO RISE 6.2 PERCENT IN 1975 COMPARED WITH 4.8 PERCENT IN 1974. SHIPPING WILL GROW 10 PERCENT BY VOLUME AND THE OIL SECTOR AS MUCH AS 193 PERCENT. PRICES, WHICH ARE ESTIMATED TO RISE JUST UNDER 10 PERCENT THIS YEAR, ARE PROJECTED TO RISE BY ABOUT 11 PERCENT IN 1975. IN CONTRAST TO 1974, WHEN THE BULK OF THE PRICE INFLATION WAS ATTRIBUTABLE TO IMPORTS (IMPORTS ARE OVER 40 PERCENT OF GNP) THE MAIN INFLATIONARY FORCE IN 1975 IS EXPECTED TO BE OF DOMESTIC ORIGIN.

3. PROPOSED EXPENDITURES IN THE FISCAL BUDGET ARE UP 22.2 PERCENT OVER THE 1974 BUDGET TO DOLS 7.6 BILLION (AT DOLS 1.00 - NKR. 5.50). PRICE AND WAGE INCREASES WILL, HOWEVER, ACCOUNT FOR THE BULK OF THE RISE IN BUDGET EXPENDITURES, THE BUDGET FROWTH IN REAL TERMS WILL BE LIMITED TO 4 PERCENT COMPARED WITH ABOUT 5.5 PERCENT IN REAL TERMS IN THE 1974 BUDGET.

4. TOTAL REVENUE IS TO RISE 14.3 PERCENT TO DOLS 6.3 BILLION, LEAVING DOLS 1.3 BILLION TO BE FINANCED BY BORROWING AND DRAW-
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ING ON TREASURY CASH HOLDINGS. THE 1975 BUDGET SHOWS A TECHNICAL DEFICIT, I.E., DEFICIT BEFORE LOAN TRANSACTIONS, OF DOLS 190 MILLION OR TEN TIMES THE 1974 FIGURE.

5. HIGH PRIORITY IS GIVEN TO CONTROLLING PRICES (PRICE SUBSIDIES WILL MORE THAN DOUBLE TO DOLS 246 MILLION IN 1975); AS WELL AS TO ENVIRONMENT CONTROL; ROAD, TELECOMMUNICATIONS AND HYDROELECTRIC POWER DEVELOPMENT; AND FOREIGN AID. MAJOR

ITEMS OF EXPENDITURE INCLUDE EDUCATION AND RESEARCH (DOLS 893 MILLION), INTEREST AND DEBT REDEMPTION (DOLS 826 MILLION), SOCIAL MEASURES (DOLS 801 MILLION) AND INLAND TRANSPORT (DOLS 769 MILLION).

6. DEFENSE EXPENDITURES OF DOLS 797 MILLION ARE PROPOSED, UP 18.3 PERCENT OVER 1974, BUT UP ONLY 1 PERCENT IN REAL TERMS BECAUSE OF PRICE INFLATION. THIS COMPARES WITH A REDUCTION OF 0.2 PERCENT IN DEFENSE SPENDING IN REAL TERMS IN THE GOVERNMENT'S 1974 BUDGET PROPOSAL. THE LONG-TERM BUDGET FORECAST INCLUDED IN THE 1975 PROPOSALS PROVIDES FOR AN INCREASE OF 1.2 PERCENT A YEAR IN REAL TERMS BETWEEN 1975 AND 1978 COMPARED WITH 1.9 PERCENT FORECAST LAST YEAR FOR 1974-78. THESE FIGURES IN TURN CONTRAST WITH A 2.25 PERCENT ANNUAL GROWTH IN THE DEFENSE DEPARTMENT'S OWN FORECAST FOR DEFENSE EXPENDITURES IN REAL TERMS. PROVISION IS MADE FOR AUTHORITY TO ENTER INTO ORDERS FOR DOLS 410 MILLION FOR NEW EQUIPMENT AND TO CONTINUE STUDIES OF NEW FIGHTER AIRCRAFT TO REPLACE THE F-104. PROVISION FOR FUNDING THESE PURCHASES WILL BE INCLUDED IN FUTURE BUDGETS. MENTION IS ALSO MADE OF THE GOVERNMENT'S INTENTION OF SETTLING SHORTLY THE QUESTION OF PURCHASE OF CROTALE ROCKETS.

7. FOREIGN AID IS TO BE INCREASED BY 42.7 PERCENT TO A TOTAL OF DOLS 180 MILLION WHICH WILL BRING AID TO LESS DEVELOPED COUNTRIES TO 0.8 PERCENT OF GNP. THE GOVERNMENT'S GOAL IS 1.0 PERCENT OF GNP BY 1978. INCLUDED IN THE FOREIGN AID PROPOSAL IS A DOLS 2.7 MILLION APPROPRIATION TO AFRICAN LIBERATION MOVEMENTS. THE SEPARATE TAX FOR FOREIGN AID INCLUDED ON INCOME TAX FORMS IS ABOLISHED AND FUNDS WILL BE TAKEN FROM GENERAL REVENUE.

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FM AMEMBASSY OSLO
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INFO USEC BRUSSELS 977
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USOECN PARIS 1516
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8. PROPOSED CHANGES IN TAXATION WILL RESULT IN INCOME TAX REDUCTIONS TOTALING DOLS 400 MILLION. DOLS 127 MILLION OF THE REDUCTIONS, HOWEVER, REFER TO CHANGES IN THE MUNICIPAL INCOME TAXATION ALREADY APPROVED BY THE STORTING. THE CHANGES IN INCOME TAXATION WILL RESULT IN INCOME TAX REDUCTIONS FOR THE BULK OF THE TAXPAYERS ALTHOUGH INFLATION WILL FORCE MANY TAXPAYERS INTO HIGHER TAX BRACKETS. THE NET EFFECT OF THE GOVERNMENT'S NEW TAX POLICY IS REFLECTED IN GROSS TAXES AS A PERCENTAGE OF GNP. THIS RATE INCREASED CONTINUOUSLY UNTIL IT REACHED A LEVEL OF 47.4 PERCENT IN 1973. TAX ADJUSTMENTS INTRODUCED IN CONNECTION WITH THE 1974 WAGE SETTLEMENTS WILL BRING THE GROSS TAX GNP RATE DOWN TO 46.9 PERCENT FOR 1974 AND THE RATE FOR 1975 IS CALCULATED AT 45.5 PERCENT. A SO-CALLED TAX LIMITATION RULE WHICH WAS ABOLISHED IN 1973, WILL BE REINTRODUCED. AS A CONSEQUENCE, TOTAL INCOME AND CAPITAL TAXES FOR A TAXPAYER WILL BE LIMITED TO 90 PERCENT OF ASSESSED INCOME. NO SUBSTANTIAL CHANGES ARE PROPOSED IN REGARD TO THE 20 PERCENT VALUE ADDED TAX, BUT TOTAL PROCEEDS FROM THIS UNCLASSIFIED

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LARGEST SINGLE GOVERNMENT SOURCE OF INCOME WILL RISE 16 PERCENT TO DOLS 2.9 BILLION. INCREASED TELEPHONE AND POSTAL RATES AND HIGHER TAXES ON ALCOHOLIC AND NON-ALCOHOLIC BEVERAGES AND COLLECTIVE TRANSPORTATION WILL RAISE REVENUE BY DOLS 127 MILLION.

9. THE BUDGET MAKES NO PROVISION FOR TAX INCREASES FOR SOCIAL SECURITY PROGRAMS, WHICH ARE LARGELY FINANCED BY SEPARATE EARMARKED TAXES ON EMPLOYERS AND EMPLOYEES. BASE RETIREMENT PAY (THE BASIC AMOUNT) WILL RISE MODESTLY TO KEEP PACE WITH INFLATION. THIS WILL RESULT IN A 2 1/2 PERCENT INCREASE IN REAL TERMS IN SOCIAL SECURITY PAYMENTS, COMPARED TO A PROJECTED INCREASE OF ABOUT 4.5 PERCENT IN REAL DISPOSABLE INCOME IN 1975 FOR WAGE EARNERS. SOCIAL SECURITY REVENUE WILL RISE TO DOLS 3.86 BILLION AND EXPENDITURES TO DOLS 3.67 BILLION, LEAVING AS IN PAST YEARS, A SMALL SURPLUS.

10. THE TIGHT LABOR MARKET IS EXPECTED TO CONTINUE AND

EMPLOYMENT TO RISE 0.8 PERCENT OR MORE THAN THE GROWTH IN POPULATION AS MORE MARRIED WOMEN WILL ENTER THE WORK FORCE. THE GOVERNMENT HOPES THE BUDGET WILL STIMULATE PRIVATE CONSUMPTION WHICH IS TO INCREASE 5.7 PERCENT OR 0.5 PERCENT MORE THAN IN 1974. NO REDUCTION IS FORESEEN IN PRIVATE INDUSTRIAL INVESTMENT WHICH IS BOOMING AND WHICH IS PROJECTED TO RISE 25 PERCENT IN VOLUME IN 1974 ALTHOUGH THE RATE OF GROWTH OF OVERALL GROSS INVESTMENT IS EXPECTED TO DECLINE FROM 6.4 PERCENT IN 1973 TO 4 PERCENT IN 1974. CREDIT CONTROLS WILL BE MAINTAINED TO DAMPEN THE RECORD DEMAND FOR FUNDS. WAGES, INCLUDING WAGE DRIFT WHICH ACCOUNTS FOR APPROXIMATELY HALF OF THE ANNUAL WAGE INCREASE OF INDUSTRIAL WORKERS, ARE EXPECTED TO RISE 17 PERCENT.

1. NORWAY'S BALANCE OF PAYMENTS IS EXPECTED TO DETERIORATE 4 PERCENT TO DOLS 1.3 BILLION. THIS DEFICIT IS CHARACTERIZED AS A FURTHER "ADVANCE" ON OIL REVENUES. EXPORTS ARE EXPECTED TO GROW 9.5 PERCENT (6.2 PERCENT IN 1974) AND IMPORTS 5.2 PERCENT (7.5 PERCENT).

12. COMMENT: THE PROPOSED 1975 FISCAL BUDGET HAS SO FAR BEEN GENERALLY FAVORABLY RECEIVED IN MOST POLITICAL QUARTERS. INCOME TAX REDUCTIONS HAD BEEN PROMISED BY THE UNCLASSIFIED

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MINISTER OF FINANCE MONTHS BEFORE, BUT NO NON-GOVERNMENT OBSERVER APPEARS TO HAVE EXPECTED INCOME TAX REDUCTIONS OF THE EXTENT PROPOSED. THE GOVERNMENT CLAIMS THE 1975 BUDGET TO BE LESS EXPANSIONARY THAN THAT OF THE CURRENT YEAR. THIS CONTENTION MAY BE TRUE INsofar AS THE BUDGET PROJECTS A REDUCTION IN THE GOVERNMENT SHARE OF THE GNP AND THUS A REDUCTION OF THE GOVERNMENT GENERATED DEMAND. IT CAN, HOWEVER, HARDLY BE CALLED ANTI-INFLATIONARY.

13. SIGNIFICANTLY, THE LABOR GOVERNMENT HAS KEPT THE LID ON SOCIAL SECURITY EXPENDITURES FOR THE SECOND YEAR IN A ROW AS IT HAS BECOME CLEAR THAT NORWAY, ALTHOUGH A WELFARE STATE, HAS REACHED A LEVEL OF HIGH TAXATION WHERE INCREASED RETIREMENT PENSIONS OR OTHER SOCIAL BENEFITS ARE NO SUBSTITUTE FOR TAX RELIEF AND HIGHER REAL INCOME, AT LEAST TO THE AVERAGE TAXPAYERS. ALTHOUGH ADMITTEDLY SPENDING OIL REVENUE IN ADVANCE, THIS REVENUE IS BEING USED TO MAINTAIN PRESENT PROGRAMS AND EXPENDITURES, AND THE ABSENCE OF NEW PROGRAMS GIVES LITTLE HINT OF HOW NORWAY WILL CHOOSE TO UTILIZE THE LARGE REVENUES IT EXPECTS WITHIN TWO OR THREE YEARS.

14. THE PROVISIONS FOR DEFENSE EXPENDITURES ARE DISAPPOINTING, FALLING SUBSTANTIALLY SHORT, AS THEY DO OF THE DEFENSE MINISTRY'S PLANNED INCREASE IN REAL ANNUAL TERMS.

REPLACEMENT OF THE F-104 FIGHTER AIRCRAFT WILL REQUIRE, OF
COURSE, SPECIAL FUNDING ADDITIONAL TO THE BASIC
DEFENSE BUDGET.
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